

Proposed Linkage Amendments to the Cap-and-Trade Regulation

California Air Resources Board
April 19, 2013

Presentation Outline

- Cap-and-Trade Program Update
- Proposed Linkage Amendments to the Cap-and-Trade Regulation
- 2013 Cap-and-Trade Activities
- Staff Recommendation

Background

- AB 32 requires ARB to reduce greenhouse gas emissions to the 1990 level by 2020
- Scoping Plan includes a suite of measures being implemented to achieve 2020 target
- Cap-and-Trade is key element of Scoping Plan
- Declining cap on emissions ensures that California meets the AB 32 target
- Creates an economy-wide carbon price that drives investment in clean and efficient technologies
- AB 32 requires coordination with other jurisdictions

Cap-and-Trade Program Update

- Regulation took effect on January 1, 2012
- Distribution of allowances occurred in November 2012
- Allowance auctions were held in November 2012, and February 2013
 - Auctions and reserve sales will continue on quarterly basis
- Staff will propose regulatory changes in response to Board direction in October 2013
- The first compliance date will occur in November 2014

Cap-and-Trade Linkage Rule Development Process

- February, 2012 – Public Workshop to discuss linking
- April 9 – Public Meeting to discuss linking
- May 9, 2012 – Notice of Linkage Amendments
 - 45-day comment period with concurrent 1st 15-day comment period
- June 2012 – Board directed the Executive Officer to seek Governor's findings under SB1018
- January 8, 2013 – 2nd 15-day comment period
- February 22, 2013 – ARB request for Governor's findings
- March 22, 2013 - 3rd 15-day comment period
- April 8, 2013 – Governor provides findings as required by SB1018

Proposed Linkage Regulatory Amendments

- Brief overview of linkage related amendments:
 - The proposed amendments focus on linkage
 - “Linkage” allows compliance instruments issued by Québec to be used in the California cap-and-trade program, and the California compliance instruments to be used in the Québec program
 - Under proposed amendments, linkage would go into effect on January 1, 2014
 - Board notification and public review, at least annually, and six months prior to significant changes in linked program taking effect

Québec Program Summary

- Bill 42 – Requires Quebec to address climate change
- 2020 greenhouse gas target is 20% below 1990 levels (program is more stringent than AB 32)
- Western Climate Initiative Partner
 - 6 years of coordination among WCI partners
- Existing mandatory reporting and cap-and-trade regulations
- Formal adoption of a cap-and-trade program in December 2011 with final amendments in December 2012
- Emission inventory is smaller than California, about 20% the number of emissions

Québec Program

Mandatory Reporting Regulation

- Similar scope for reporting sectors and thresholds for leakage monitoring and inclusion in cap-and-trade
- Reporting methods consistent with California's reporting methods
- Requirements for third-party verification
- Final amendments strengthen missing data provisions

Québec Program Cap-and-Trade Regulation

- As in California, covers largest emitters and electricity importers
- ~ 80 covered entities
- Holding and purchase limits are identical to California's
- Quarterly auctions and Allowance Price Containment Reserve sales
- Three-year compliance obligation, no annual requirement
- Similar know-your-customer requirements
- Enforcement ability equivalent to California

Québec Program Offset Program

- Consistent with California's program
- 8% offset usage limit for compliance
- Three compliance offset protocols
 - Livestock Digesters
 - Small Landfills
 - Destruction of Ozone Depleting Substances from Foam
- No opportunity for offset program or protocol shopping
 - ARB would issue for projects in the United States
 - Québec would issue for projects in Québec or Canada

Environmental Analysis of Proposed Amendments

- Potential for environmental impacts associated with linkage falls within the scope of impacts analyzed in cap-and-trade environmental analysis.
- Also looked at potential indirect impacts from California-covered entities acquiring offset credits from projects under Québec offset protocols.
- Found beneficial GHG impacts and no adverse impacts except digester projects in Quebec could result in impacts to noise, traffic, cultural resources and odors.

SB1018 Requirements

- Budget trailer bill enacted in June 2012 requires the governor to make four findings before linkage can proceed:
 - 1) Other jurisdiction is equivalent to California program
 - 2) California enforcement will not change
 - 3) Other jurisdiction enforcement is equivalent to California program
 - 4) Linkage does not create liability for California
- On February 22, 2013 ARB formally requested that the Governor make the findings

Governor's SB1018 Findings

- April 8, 2013 letter from Governor to ARB, finding that:
 - 1) Québec program is “similar to or identical” to CA’s in all “material respects”
 - 2) Linkage does not change CA’s “ability...to enforce AB32 against entities located inside or outside California”
 - 3) “Québec’s statutes and regulations provide for equivalent enforcement of its cap and trade program”
 - 4) “Linking is unlikely to lead to any significant liability”
- The letter also directs ARB to conduct pre-linking activities and to offer a November status report to Cal/EPA and the Governor which details any impediments to linkage

Attorney General's Linkage Review

- The Governor requested that the Attorney General to review the linkage proposal
- In conjunction with his findings, the Governor released the Attorney General's written response
- The Attorney General agreed that there was an adequate basis to make the four findings required by SB1018

Stakeholder Comments

- Comments about linking generally fall into 3 categories:
 - 1) Future changes to linked jurisdiction's program
 - 2) Address current issues with California Program prior to linking
 - 3) Process for “de-linking”, just in case
- Staff proposes to provide a report to the Board prior to any changes to a linked program that will provide opportunity for stakeholder input and Board direction, if needed
- Any potential market-related amendments planned for fall ARB hearing will be harmonized with Québec prior to linkage taking effect
- De-linking would require a regulatory amendment

Next Steps

- October Board hearing to present progress towards linkage preparedness
- Report regarding any impediments to linkage is due to the Governor and Cal/EPA on November 1, 2013
- Finalize agreement to document coordination process
- If approved, linkage will take effect January 1, 2014
- Provide Board updates on any future changes to a linked program

2013 Cap-and-Trade Activities

- Cap-and-Trade Regulation Proposed Amendments: Fall 2013
 - Benchmarking and leakage review
 - Allocation for new sectors
 - “But-For” Cogeneration
 - Cost containment
 - Resource shuffling
 - Compliance assistance for California Universities
 - Legacy power generator contracts
 - Implementation related amendments
- Propose New Offset Protocols: Fall 2013

Staff Recommendation

- Approve Resolution 13-7 to approve linkage with Québec on January 1, 2014
- Direct staff to report to the Board in Fall 2013 on the status of the auction platform, systems to support linkage, and any impediments to linking the California and Québec cap-and-trade programs